

CITY OF WEST LIBERTY
West Liberty, Iowa
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

NEWS RELEASE

Contact:

FOR RELEASE _____

Taylor, Rees, Beckey & Co. P.C. today released an audit report on the City of West Liberty, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2005, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's revenues totaled \$6,934,158 for the year ended June 30, 2005, an 2.382 percent increase from the prior year. Revenues included \$678,048 in property tax, \$177,486 for tax increment financing revenues, \$5,120,766 from charges for service, \$278,919 from local option sales tax, \$139,929 from unrestricted investment earnings, \$24,309 from licenses and permits and \$514,701 from other general revenues.

Expenses for City operations totaled \$6,578,206. Expenses included \$530,817 for public safety, \$458,419 for culture and recreation, \$303,530 for public works, \$87 for community and economic development, \$221,239 debt service and \$64,702 for general government. Expenses for business type activities totaled \$4,999,412.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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JUNE 30, 2005

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**CITY OF WEST LIBERTY
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
William Phelps	Mayor	Jan 2006
Clifford McFerren	Mayor Pro tem	Jan 2006
Todd Leach	Council Member	Jan 2008
William Cline	Council Member	Jan 2008
Chad Thomas	Council Member	Jan 2008
Marvin Dalton	Council Member	Jan 2006
Karen A. Thurness	Deputy Clerk	Jan 2006
Connie S. Black	Treasurer	Jan 2006
Hank J. Priest	Chief of Police	Appointed
Curt Newcomb	Fire Chief	Appointed
Chris Ward	City Manager	Appointed

CITY OF WEST LIBERTY

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of West Liberty, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of West Liberty's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of West Liberty at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2005 on our consideration of the City of West Liberty internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 49 and 50 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of West Liberty basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

TAYLOR, REES, BECKEY & CO., P.C.
Certified Public Accountants

October 24, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of West Liberty provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City of West Liberty is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 2.382%, or approximately \$161,342, from fiscal 2004 to fiscal 2005. Property tax decreased approximately \$45,267.

This is due to the State of Iowa's Assessment Limitation Order or the rollback of the Ad valorem taxes.

The City of West Liberty in fiscal year 2005-2006 was a benchmark year for the organization. This was the first year that the proprietary funds no longer made transfers in to the general fund. This was done to more accurately track all of the different funds in the city. The various departments were then billed for the departments they actually used. This caused the general fund to have less revenue due to the lack of substance that the proprietary fund provided for these various programs. The City of West Liberty also added to the parks and recreations program this past fiscal year which also affected the general fund of the City of West Liberty.

Program expenses totaled \$6,578,205. Expenses included \$537,767, for public safety, \$458,419 for culture and recreation, \$64,702 for general government and \$4,999,412 for business type activities.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City of West Liberty as a whole and present an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City of West Liberty's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government -wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water, the sanitary sewer system, electric system and the City's solid waste department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

(1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

(2) Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water, Sewer, Electric and Solid Waste Funds, with Water, Sewer and Electric considered to be major funds of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

	Net Assets <u>June 30, 2005</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Current and other assets	\$ 1,959,570	6,859,534	8,819,104
Capital assets	<u>6,257,977</u>	<u>16,535,613</u>	<u>22,793,590</u>
Total assets	<u>8,217,547</u>	<u>23,395,147</u>	<u>31,612,694</u>
Long-term liabilities	1,497,400	6,192,387	7,689,787
Other liabilities	<u>226,761</u>	<u>583,625</u>	<u>810,386</u>
Total liabilities	<u>1,724,161</u>	<u>6,776,012</u>	<u>8,500,173</u>
Net assets:			
Invested in capital assets, net of related debt	4,760,577	2,492,988	7,253,565
Restricted	133,573	2,417,909	2,551,482
Unrestricted	<u>1,599,236</u>	<u>11,708,238</u>	<u>13,307,474</u>
Total net assets	<u>\$ 6,493,386</u>	<u>16,619,135</u>	<u>23,112,521</u>

Net assets of governmental activities increased from FY04 by approximately \$242,875, or 3.89%. Net assets of business type activities increased from FY04 by approximately \$113,077, or .69%. The largest portion of the City's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$13,307,474 at the end of this year.

Changes in Net Assets
Year ended June 30, 2005

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for service	\$ 118,279	5,002,487	5,120,766
General revenues:			
Property tax levied for:			
General purposes	678,048		678,048
Tax increment financing revenues	177,486		177,486
Local option sales tax	278,919		278,919
Intergovernmental	291,191		291,191
Licenses & permits	24,309		24,309
Unrestricted investment earnings	36,501	103,427	139,928
Miscellaneous	<u>216,935</u>	<u>6,575</u>	<u>223,510</u>
Total revenues	<u>1,821,668</u>	<u>5,112,489</u>	<u>6,934,157</u>
Program expenses:			
Public safety	537,767		537,767
Public works	296,580		296,580
Culture and recreation	458,419		458,419
Community and economic development	87		87
General government	64,702		64,702
Debt Service	221,238		221,238
Water		310,152	310,152
Sewer		1,043,521	1,043,521
Electric		3,417,257	3,417,257
Solid Waste	<u>-</u>	<u>228,482</u>	<u>228,482</u>
Total expenses	<u>1,578,793</u>	<u>4,999,412</u>	<u>6,578,205</u>
Increase in net assets	242,875	113,077	355,952
Net assets beginning of year (as restated)	<u>6,250,511</u>	<u>16,506,058</u>	<u>22,756,569</u>
Net assets end of year	<u>\$ 6,493,386</u>	<u>16,619,135</u>	<u>23,112,521</u>

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As City of West Liberty completed the year, its governmental funds reported a combined fund balance of \$1,732,809, which is less than the \$2,222,207 total fund balance at June 30, 2004. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund showed a decline of \$121,853 from the prior year to \$1,040,620.

The Capital Projects Fund ended fiscal 2005 with a \$(63,911) balance compared to the prior year ending balance of \$114,995. The fiscal 2005 deficit is a result of project costs exceeding available funds. The deficit will be eliminated through future transfers from other funds.

The capital projects fund ran a deficit due to two projects that were not originally budgeted in the fiscal year. This was the Maxson Street paving project and the Walnut Street right of way project. Money that was collected in previous years road use tax fund balance was transferred to offset the deficit.

The Debt Service Fund ended fiscal 2005 with a \$133,573 balance compared to the prior year ending balance of \$257,464. The fiscal 2005 deficit is a result of a transfer to the capital projects fund. The Debt Service Fund was not considered a major fund in 2004.

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal 2005 with a \$2,280,636 net asset balance compared to the prior year ending net asset balance of \$2,259,026.

The Sewer Fund, which accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system, ended fiscal 2005 with a \$5,078,397 net asset balance compared to the prior year ending net asset balance of \$5,070,888.

The Electric Fund, which accounts for the operation and maintenance of the City's electrical system, ended fiscal 2005 with an \$8,999,595 net asset balance compared to the prior year ending net asset balance of \$8,940,922.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of West Liberty amended its budget one time. The amendment was done in 2005. These amendments were needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year.

Even with these amendments, the City exceeded the budgeted amount in the general government, public works, culture and recreation, debt service and capital projects functions for the year ended June 30, 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets include land, buildings and improvements, equipment, streets, sewer systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$6,257,977 (net of accumulated depreciation) at June 30, 2005. Capital assets for business type activities totaled \$16,535,613 (net of accumulated depreciation) at June 30, 2005. See Note 3 to the financial statements for more information about the City's capital assets.

Long-Term Debt

At June 30, 2005, the City had \$1,497,400, in total long-term debt outstanding for governmental activities. Total long-term debt outstanding for business type activities was \$6,057,600 at June 30, 2005.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

Several economic factors affected decisions made by the City of West Liberty in setting its fiscal 2006 budget. The City of West Liberty will experience a significant change in General Fund revenues and expenditures from fiscal year 2005 to fiscal year 2006. The major factors that will play a role in this change are the in intergovernmental revenue and the property valuation for fiscal 2006 in which the State of Iowa has issued the Assessment Limitation Order to be 48% for residential property.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index (CPI) increase. The State of Iowa CPI increase was 3.2 percent for fiscal year 2005 compared with the national rate of 3.4 percent. Inflation has been modest here due, in part, to the slowing of the residential housing market state wide and the increase in energy prices has also been a major influence on this budget. City staff and management could not anticipate the dramatic increase in fuel cost for this budget year.

The General Fund is projected to end fiscal year 2006 with a fund balance of approximately \$1,040,620, a 15.31% increase from fiscal year 2005.

The tax levy rates per \$1,000 of taxable valuation for fiscal year 2006 are provided below:

General levy	\$ 8.10
Debt Service levy	\$ 0.91
Tort Liability	\$ 0.95
Employee Benefits	\$ 2.19
Emergency Levy	<u>\$ 0.27</u>
Total	<u>\$12.42</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact the City Manager, Mr. Chris Ward, City of West Liberty, 409 N. Calhoun Street, West Liberty, Iowa 52776 or by telephone at (319) 627-2418.

Basic Financial Statements

City of West Liberty
Statement of Net Assets
June 30, 2005

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Assets			
Cash and pooled investments	\$ 1,842,831	2,784,715	4,627,546
Receivables:			
Property tax	8,952		8,952
Accounts	9,874	712,571	722,445
Accrued interest	667	13,176	13,843
Due from other governments	551		551
Due from other funds	46,656	68,738	115,394
Inventories		123,826	123,826
Prepaid Expenses	50,039	175,880	225,919
Restricted assets:			
Cash and pooled investments		2,980,628	2,980,628
Capital assets (net of accumulated depreciation)	<u>6,257,977</u>	<u>16,535,613</u>	<u>22,793,590</u>
Total assets	<u>8,217,547</u>	<u>23,395,147</u>	<u>31,612,694</u>
Liabilities			
Accounts payable	85,120	534,272	619,392
Salaries and benefits payable	25,639	23,953	49,592
GO Bonds payable current plus interest		21,827	21,827
Due to other governments	608	3,573	4,181
Due to other funds	115,394		115,394
Long-term liabilities:			
Portion due or payable within one year:			
Customer deposits		58,670	58,670
General obligation bonds/notes	128,680		128,680
Revenue notes payable		510,000	510,000
Accrued interest payable		52,719	52,719
Portion due or payable after one year:			
General obligation bonds/notes (net of unamortized discount)	1,368,720	126,280	1,495,000
Revenue notes payable		5,400,000	5,400,000
Bank note payable	-	44,718	44,718
Total Liabilities	<u>1,724,161</u>	<u>6,776,012</u>	<u>8,500,173</u>

City of West Liberty
Statement of Net Assets
June 30, 2005

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	4,760,577	2,492,988	7,253,565
Restricted for:			
Debt service	133,573		133,573
Revenue note retirement		624,684	624,684
Improvements		1,793,225	1,793,225
Unrestricted	<u>1,599,236</u>	<u>11,708,238</u>	<u>13,307,474</u>
Total net assets	<u>\$ 6,493,386</u>	<u>16,619,135</u>	<u>23,112,521</u>

See notes to financial statements.

City of West Liberty

Statement of Activities

Year ended June 30, 2005

		<u>Program Revenues</u>
Functions / Programs:	<u>Expenses</u>	Charges for <u>Service</u>
Primary Government:		
Governmental activities:		
Public safety	\$ 537,767	75,824
Public works	296,580	
Culture and recreation	458,419	42,455
Community and economic development	87	
General government	64,702	
Debt Service	<u>221,238</u>	<u>-</u>
Total governmental activities	<u>1,578,793</u>	<u>118,279</u>
Business type activities:		
Water	310,152	314,155
Sewer	1,043,521	1,032,089
Electric	3,417,257	3,404,795
Solid Waste	<u>228,482</u>	<u>251,448</u>
Total business type activities	<u>4,999,412</u>	<u>5,002,487</u>
Total Primary Government	<u>\$ 6,578,205</u>	<u>5,120,766</u>
General Revenues:		
Property and other city tax levied for:		
General purposes		
Tax increment financing		
Local option sales tax		
Intergovernmental		
Licenses & permits		
Unrestricted investment earnings		
Miscellaneous		
Total general revenues		
Change in net assets		
Net assets beginning of year		
Net assets end of year		

See notes to financial statements.

<u>Net (Expense) Revenue and</u> <u>Changes in Net Assets</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
(461,943)		(461,943)
(296,580)		(296,580)
(415,964)		(415,964)
(87)		(87)
(64,702)		(64,702)
<u>(221,238)</u>	<u>-</u>	<u>(221,238)</u>
<u>(1,460,514)</u>	<u>-</u>	<u>(1,460,514)</u>
	4,003	4,003
	(11,432)	(11,432)
	(12,462)	(12,462)
<u>-</u>	<u>22,966</u>	<u>22,966</u>
<u>-</u>	<u>3,075</u>	<u>3,075</u>
<u>(1,460,514)</u>	<u>3,075</u>	<u>(1,457,439)</u>
678,048		678,048
177,486		177,486
278,919		278,919
291,191		291,191
24,309		24,309
36,501	103,427	139,928
<u>216,935</u>	<u>6,575</u>	<u>223,510</u>
<u>1,703,389</u>	<u>110,002</u>	<u>1,813,391</u>
242,875	113,077	355,952
<u>6,250,511</u>	<u>16,506,058</u>	<u>22,756,569</u>
<u>\$ 6,493,386</u>	<u>16,619,135</u>	<u>23,112,521</u>

City of West Liberty

Balance Sheet
Governmental Funds

June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Assets					
Cash and pooled investments	\$ 1,003,816	131,552	(47,249)	754,712	1,842,831
Receivables:					
Property tax	6,931	2,021			8,952
Accounts	9,874				9,874
Accrued interest	189			478	667
Due from other governments				551	551
Due from other funds	46,656				46,656
Prepaid Expenses	42,294			7,745	50,039
Total assets	<u>\$ 1,109,760</u>	<u>133,573</u>	<u>(47,249)</u>	<u>763,486</u>	<u>1,959,570</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 46,165		16,662	22,293	85,120
Salaries and benefits payable	22,367			3,272	25,639
Due to other governments	608				608
Due to other funds				115,394	115,394
Total Liabilities	<u>\$ 69,140</u>	<u>-</u>	<u>16,662</u>	<u>140,959</u>	<u>226,761</u>

City of West Liberty

Balance Sheet
Governmental Funds

June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Liabilities and Fund Balances (continued)					
Fund balances					
Reserved for debt service		133,573			133,573
Unreserved:					
Undesignated:					
Reported in:					
General fund	1,040,620				1,040,620
Special revenue funds				601,892	601,892
Capital projects fund			(63,911)	20,635	(43,276)
Total fund balances	<u>1,040,620</u>	<u>133,573</u>	<u>(63,911)</u>	<u>622,527</u>	<u>1,732,809</u>
Total liabilities and fund balances	<u>\$ 1,109,760</u>	<u>133,573</u>	<u>(47,249)</u>	<u>763,486</u>	<u>1,959,570</u>

See notes to financial statements.

City of West Liberty

City of West Liberty
Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Assets

June 30, 2005

Total governmental fund balances (page 22)	\$ 1,732,809
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$10,207,137 and the accumulated depreciation is \$3,949,160.

6,257,977

Long-term liabilities, including bonds payable, compensated absences and accrued interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

(1,497,400)

Net assets of governmental activities (page 15)

\$ 6,493,386

See notes to financial statements.

City of West Liberty

Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Governmental Funds

Year ended June 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Revenues:					
Property tax	\$ 623,553	\$ 54,495		-	678,048
Tax increment financing		127,790		49,696	177,486
Other city tax	92,973	97,466		88,480	278,919
Licenses and permits	24,309				24,309
Use of money and property	22,339	4,219	522	9,421	36,501
Intergovernmental	14,149			277,042	291,191
Charges for service	79,372			38,908	118,280
Miscellaneous	<u>49,152</u>	<u>10,215</u>		<u>157,568</u>	<u>216,935</u>
Total revenues	<u>905,847</u>	<u>294,185</u>	<u>522</u>	<u>621,115</u>	<u>1,821,669</u>
Expenditures:					
Operating:					
Public safety	639,958			6,950	646,908
Public works	55,902			272,759	328,661
Culture and recreation	449,378			99,790	549,168
Community and economic development	87				87
General government	147,222			35,763	182,985
Debt service		198,150		5,754	203,904
Capital projects			<u>399,354</u>	-	<u>399,354</u>
Total expenditures	<u>1,292,547</u>	<u>198,150</u>	<u>399,354</u>	<u>421,016</u>	<u>2,311,067</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(386,700)</u>	<u>96,035</u>	<u>(398,832)</u>	<u>200,099</u>	<u>(489,398)</u>
Other financing sources (uses):					
Operating transfers in	277,347		219,926	12,500	509,773
Operating transfers out	<u>(12,500)</u>	<u>(219,926)</u>	<u>-</u>	<u>(277,347)</u>	<u>(509,773)</u>
Total other financing sources (uses)	<u>264,847</u>	<u>(219,926)</u>	<u>219,926</u>	<u>(264,847)</u>	<u>-</u>
Net change in fund balances	(121,853)	(123,891)	(178,906)	(64,748)	(489,398)
Fund balances beginning of year	<u>1,162,473</u>	<u>257,464</u>	<u>114,995</u>	<u>687,275</u>	<u>2,222,207</u>
Fund balances (deficit) end of year	<u>\$ 1,040,620</u>	<u>133,573</u>	<u>(63,911)</u>	<u>622,527</u>	<u>1,732,809</u>
See notes to financial statements.					

City of West Liberty

City of West Liberty

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - Total governmental funds (page 22) **\$ (489,398)**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	848,542
Depreciation expense	(331,573)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Repaid	<u>215,304</u>
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Change in net assets of governmental activities (page 17) **\$ 242,875**

See notes to financial statements.

City of West Liberty
Statement of Net Assets
Proprietary Funds

June 30, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Enterprise Fund</u> <u>Electric</u>	<u>Solid Waste</u>	<u>Total</u>
Assets					
Cash and pooled investments	\$ 22,684	187,196	2,440,440	134,395	2,784,715
Receivables (net of allowance for uncollectibles):					
Accounts	63,900	101,630	512,231	34,810	712,571
Accrued interest	1,591	2,645	8,811	129	13,176
Due from other funds			68,738		68,738
Inventories	25,399	811	97,616		123,826
Prepaid expenses	7,511	44,927	115,698	7,744	175,880
Restricted assets:					
Cash and pooled investments	871,124	872,098	1,223,206	14,200	2,980,628
Capital assets (net of accumulated depreciation)	<u>1,317,029</u>	<u>5,597,246</u>	<u>9,492,965</u>	<u>128,373</u>	<u>16,535,613</u>
Total assets	<u>2,309,238</u>	<u>6,806,553</u>	<u>13,959,705</u>	<u>319,651</u>	<u>23,395,147</u>
Liabilities					
Accounts payable	25,416	122,834	376,053	9,969	534,272
Salaries and benefits payable	3,186	5,646	10,669	4,452	23,953
GO Bonds payable current plus interest		21,827			21,827
Due to other governments		1,365	2,203	5	3,573
Payable from restricted assets:					
Customer deposits			58,670		58,670
Revenue notes payable		245,000	265,000		510,000
Accrued interest payable		35,204	17,515		52,719
Long-term liabilities:					
GO Bonds payable		126,280			126,280
Revenue notes payable		1,170,000	4,230,000		5,400,000
Bank note payable				44,718	44,718
Total liabilities	<u>28,602</u>	<u>1,728,156</u>	<u>4,960,110</u>	<u>59,144</u>	<u>6,776,012</u>
Net Assets					
Invested in capital assets, net of related debt	9,992	2,481,396	1,600		2,492,988
Restricted for:					
Revenue note retirement		264,101	360,583		624,684
Improvement	871,124	327,793	580,108	14,200	1,793,225
Unrestricted	<u>1,399,520</u>	<u>2,005,107</u>	<u>8,057,304</u>	<u>246,307</u>	<u>11,708,238</u>
Total net assets	<u>\$ 2,280,636</u>	<u>5,078,397</u>	<u>8,999,595</u>	<u>260,507</u>	<u>16,619,135</u>

See notes to financial statements.

City of West Liberty

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2005

	<u>Enterprise Fund</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Solid Waste</u>	<u>Total</u>
Operating revenues:					
Charges for service	\$ 314,155	1,032,089	3,404,795	251,448	5,002,487
Total operating revenues	<u>314,155</u>	<u>1,032,089</u>	<u>3,404,795</u>	<u>251,448</u>	<u>5,002,487</u>
Operating expenses:					
Business type activities:					
Cost of sales and services	203,740	735,652	2,679,895	203,459	3,822,746
Depreciation	<u>106,412</u>	<u>184,587</u>	<u>523,994</u>	<u>22,802</u>	<u>837,795</u>
Total operating expenses	<u>310,152</u>	<u>920,239</u>	<u>3,203,889</u>	<u>226,261</u>	<u>4,660,541</u>
Operating income (loss)	<u>4,003</u>	<u>111,850</u>	<u>200,906</u>	<u>25,187</u>	<u>341,946</u>
Non-operating revenues (expenses):					
Interest income	15,884	19,552	65,672	2,319	103,427
Interest expense		(123,282)	(213,368)	(2,221)	(338,871)
Sale of personal property	<u>1,723</u>	<u>(611)</u>	<u>5,463</u>		<u>6,575</u>
Total non-operating revenues (expenses)	<u>17,607</u>	<u>(104,341)</u>	<u>(142,233)</u>	<u>98</u>	<u>(228,869)</u>
Change in net assets	21,610	7,509	58,673	25,285	113,077
Net assets beginning of year	<u>2,259,026</u>	<u>5,070,888</u>	<u>8,940,922</u>	<u>235,222</u>	<u>16,506,058</u>
Net assets end of year	<u>\$ 2,280,636</u>	<u>5,078,397</u>	<u>8,999,595</u>	<u>260,507</u>	<u>16,619,135</u>

See notes to financial statements.

City of West Liberty

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	<u>Enterprise Fund</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Solid Waste</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 21,610	7,509	58,673	25,285	113,077
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	106,412	184,587	523,994	22,802	837,795
(Increase) Decrease in customer accounts receivable and unbilled usage and other accounts receivable	(2,864)	(7,212)	(28,500)	(5,103)	(43,679)
(Increase) decrease in inventories, at cost	392	239	9,746		10,377
(Increase) in prepaid expenses	(2,298)	3,011	(4,503)	(1,625)	(5,415)
Increase (decrease) in accounts payable	10,804	53,110	131,810	(2,265)	193,459
Increase (decrease) in salaries payable	1,621	4,193	6,236	2,407	14,457
Increase in customer deposits			2,877		2,877
Increase in due to other governments	-	(31)	20,850	5	20,824
Net cash provided (used) by operating activities	<u>135,677</u>	<u>245,406</u>	<u>721,183</u>	<u>41,506</u>	<u>1,143,772</u>
Cash flows from capital and related financing activities:					
Net increase of capital assets	(241,674)	(379,007)	(176,188)	(3,712)	(800,581)
Increase (decrease) in long term debt	-	(250,243)	(255,638)	(11,635)	(517,516)
Net cash used for capital and related financing activities	<u>(241,674)</u>	<u>(629,250)</u>	<u>(431,826)</u>	<u>(15,347)</u>	<u>(1,318,097)</u>
Net decrease in cash and cash equivalents	(105,997)	(383,844)	289,357	26,159	(174,325)
Cash and cash equivalents beginning of year	<u>999,805</u>	<u>1,443,138</u>	<u>3,374,289</u>	<u>122,436</u>	<u>5,939,668</u>
Cash and cash equivalents end of year	<u>\$ 893,808</u>	<u>1,059,294</u>	<u>3,663,646</u>	<u>148,595</u>	<u>5,765,343</u>

See notes to financial statements.

City of West Liberty

Notes to Financial Statements

June 30, 2005

NOTE 1- Summary of Significant Accounting Policies

City of West Liberty is a political subdivision of the State of Iowa located in Muscatine County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of West Liberty provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. It also provides electric, water, sewer and solid waste utilities.

The financial statements of the City of West Liberty have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of West Liberty has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of West Liberty (the primary government) and any component units of which it has none.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Muscatine County Assessor's Conference Board, County Emergency Management Commission, Muscatine County Landfill Commission and Muscatine County Joint E911 Service Board, West Liberty Community School District, Muscatine County Engineer.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

“Invested in capital assets, net of related debt” consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

“Restricted net assets” result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation .

“Unrestricted net assets” consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities related to street improvements .

Debt Service:

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

Enterprise:

The Electric Fund is used to account for the operation and maintenance of the City's electric system.

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking, is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2005 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivables have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2004.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted

assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of three years.

<u>Asset Class</u>	<u>Amount</u>
Land, buildings and improvements	\$ 25,000
Equipment and vehicles	2,500
Infrastructure	35,000

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40-50 years
Improvements other than buildings	15-50 years
Vehicles	3-15 years
Equipment	5-30 years
Infrastructure	15-20 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences – Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and if material, a fund liability of the governmental fund that will pay it. At June 30, 2005 the liability was not material to the financial statements.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amount budgeted in the public works, culture and recreation, general government, debt service and capital projects functions.

NOTE 2- Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

NOTE 3- Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year (as restated, note 13)	Increases	Decreases	Balance End of Year
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 345,000	62,919	-	407,919
Total capital assets not being depreciated	345,000	62,919	-	407,919
Capital assets being depreciated:				
Buildings	3,441,241	116,228		3,557,469
Improvements other than buildings	725,082	3,075		728,157
Equipment and vehicles	1,023,904	335,491	165,595	1,193,800
Infrastructure, road network	3,927,187	392,605	-	4,319,792
Total capital assets being depreciated	9,117,414	847,399	165,595	9,799,218
Less accumulated depreciation for:				
Buildings	1,412,481	49,425		1,461,906
Improvements other than buildings	243,929	35,881		279,810
Equipment and vehicles	605,894	115,360	103,818	617,436
Infrastructure, road network	1,459,102	130,906	-	1,590,008
Total accumulated depreciation	3,721,406	331,572	103,818	3,949,160
Total capital assets being depreciated, net	5,396,008	515,827	61,777	5,850,058
Governmental activities capital assets, net	\$ 5,741,008	578,746	61,777	6,257,977
Business type activities:				
Capital assets being depreciated:				
Buildings	\$ 2,356,582	128,315		2,484,897
Equipment and vehicles	16,684,022	486,445	73,620	17,096,847
Infrastructure, water and sewer network	7,421,798	192,675	-	7,614,473
Total capital assets being depreciated	26,462,402	807,435	73,620	27,196,217
Less accumulated depreciation for:				
Buildings	248,401	74,243		322,644
Equipment and vehicles	5,343,753	526,510	66,766	5,803,497
Infrastructure, water and sewer network	4,297,421	237,042	-	4,534,463
Total accumulated depreciation	9,889,575	837,795	66,766	10,660,604
Total capital assets being depreciated, net	16,572,827	(30,360)	6,854	16,535,613
Business type activities capital assets, net	\$ 16,572,827	\$ (30,360)	\$ 6,854	\$ 16,535,613

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Public safety	\$ 68,730
Public works	158,308
Culture and recreation	99,671
General government	<u>4,863</u>
Total depreciation expense - governmental activities	<u>\$ 331,572</u>
Business type activities:	
Water	\$ 106,412
Wastewater	184,587
Sanitation	22,802
Electric	<u>523,994</u>
Total depreciation expense - business type activities	<u>\$ 837,795</u>

NOTE 4- Changes in Long-Term Debt

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds/notes	\$ 1,712,704	-	215,304	1,497,400	128,680
Total	<u>\$ 1,712,704</u>	<u>-</u>	<u>215,304</u>	<u>1,497,400</u>	<u>128,680</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Business type activities:					
Revenue notes	\$ 6,557,280	-	499,680	6,057,600	531,320
Total	<u>\$ 6,557,280</u>	<u>-</u>	<u>499,680</u>	<u>6,057,600</u>	<u>531,320</u>

General obligation bonds/notes

Two issues of unmatured general obligation bonds/notes, totaling \$1,497,400, are outstanding at June 30, 2005. General obligation bonds/notes bear interest at rates ranging from 3.5% to 5.3% and mature in varying annual amounts, ranging from \$43,680 to \$140,000 with the final maturities due in the year ending 2016.

Details of general obligation bonds/notes payable at June 30, 2005 are as follows:

Governmental activities:	Date of <u>Issue</u>	Interest <u>Rates</u>	Final Due <u>Date</u>	Annual <u>Payments</u>	Amount Originally <u>Issued</u>	Outstanding <u>June 30, 2005</u>
General obligation bonds/notes:						
Library Construction note	5/25/2001	6.75%	6/30/2006	Various	400,000	-
Street Improvement bond	3/1/2001	4.5%-5.3%	6/30/2016	Various	1,490,000	1,195,000
Pool Capital Note	9/1/2002	2.75%-4.7%	6/30/2013	Various	400,000	<u>302,400</u>
Total governmental activities						<u>\$ 1,497,400</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	128,680	72,900	201,580
2007	133,680	67,376	201,056
2008	137,040	61,418	198,458
2009	142,040	55,172	197,212
2010	126,880	48,564	175,444
2011	135,240	42,408	177,648
2012	145,240	35,760	181,000
2013	153,600	28,504	182,104
2014	125,000	20,745	145,745
2015	130,000	14,245	144,245
2016	<u>140,000</u>	<u>7,420</u>	<u>147,420</u>
Total	<u>\$ 1,497,400</u>	<u>454,512</u>	<u>1,951,912</u>

Revenue notes

Three issues of unmatured revenue notes, totaling \$6,057,600, are outstanding at June 30, 2005. These notes bear interest at rates of 3.35% to 7.5% and mature in varying annual amounts ranging from \$21,320 to \$455,000 with the final maturity due in the year ending 2017.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers to separate wastewater improvement and replacement accounts shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2005, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2005 are as follows:

Business type activities:	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Amount Originally Issued</u>	<u>Outstanding June 30, 2005</u>
Revenue notes:						
Electric	9/1/02	2.5-5.3%	6/30/17	Various	5,000,000	4,495,000
Sewer	3/1/95	7.25-7.5%	6/30/10	Various	3,115,000	1,415,000
Sewer	9/1/02	2.75-4.7%	6/30/13	Various	195,000	<u>147,600</u>
Total						<u>\$ 6,057,600</u>

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	531,320	317,439	848,759
2007	551,320	289,061	840,381
2008	587,960	258,129	846,089
2009	622,960	224,382	847,342
2010	648,120	187,466	835,586
2011	334,760	148,427	483,187
2012	349,760	132,617	482,377
2013	371,400	115,457	486,857
2014	370,000	96,920	466,920
2015	390,000	77,915	467,915
2016	410,000	57,510	467,510
2017	435,000	35,534	470,534
2018	<u>455,000</u>	<u>12,058</u>	<u>467,058</u>
Total	<u>\$ 6,057,600</u>	<u>1,952,915</u>	<u>8,010,515</u>

NOTE 5- Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Fire Reserve	General	<u>\$ 12,500</u>
General	Special Law	114
	Local Option	275,375
	K-9 Trust	1,734
	Special Gifts	<u>125</u>
		<u>277,348</u>
Capital Projects	Debt Service	<u>219,926</u>
Total		<u>\$509,774</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

NOTE 6- Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue: TIF	46,656
Enterprise: Electric	Special Revenue: TIF	<u>68,738</u>
Total		<u>\$ 115,394</u>

These balances result from interfund loans to finance projects. Repayments will be made from future revenues.

NOTE 7- Pension and Retirement Benefits

IPERS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$64,304, \$57,748 and \$54,833, respectively, equal to the required contributions for each year.

NOTE 8- Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - LOCAL OPTION SALES TAX

Commencing on July 1, 1995, the City began collecting a one percent local option sales tax. As approved by voters, the City is required to utilize the sales tax revenue it receives as follows:

From January 1, 1999

- 33 ¹/₃% for local property tax relief
- 33 ¹/₃% for streets, curbs & gutters
- 33 ¹/₃% for library building project and parks and recreation

NOTE 10 - CODE OF IOWA, CHAPTER 28E, ORGANIZATIONS

On September 11, 1983, the City entered into an agreement with the Muscatine County Solid Waste Management Agency for the establishment of a jointly governed public agency under Chapter 28E of the Code of Iowa for the purpose of providing solid waste disposal facilities in Muscatine County, Iowa. The City has no direct financial commitment to the entity. The City is obligated to remain a member of the Agency for as long as bonds remain outstanding that the City of Muscatine issued in fiscal year 1997 for construction of collection and disposal facilities.

On October 4, 1994, the City entered into an agreement with the Resale Power Group of Iowa for the establishment of a jointly governed public agency under Chapter 28E of the Code of Iowa for the purpose of providing for the purchase, generation transmission distribution, sale and interchange of electric energy and related services. The agreement was modified on May 20, 1998 to include the purpose of contracting for electrical power and energy on a wholesale basis.

On January 3, 1995, the City entered into an agreement with other governmental units in the area for the establishment of a jointly governed public agency under Chapter 28E of the Code of Iowa for the purpose of mutual fire aid protection in Muscatine County, Iowa. The City has no direct financial commitment to the entity. The City is obligated to share its fire protection

resources with other governmental units of the entity. On October 7, 1997 the City entered into an agreement under Chapter 28E of the Code of Iowa with the West Liberty Community School District for the purpose of allowing for relocation of a fence.

On January 20, 1998, the City, entered into an agreement with the City of Wilton, Iowa under Chapter 28E of the Code of Iowa for the purpose of sharing equally the cost of sewer line televising equipment.

On February 11, 2000, the City entered into an agreement with the Muscatine County Sheriff's Office, the City of Muscatine Police Department and the Muscatine County Attorney's Office for the establishment of a jointly governed public agency, the Muscatine County Drug Task Force, under Chapter 28E of the Code of Iowa for the purpose of coordinating their controlled substances investigations, under Chapter 28D, enforcement and prosecution efforts and to share resources available through various sources of funding. The City has no direct financial commitment to the entity. The City is obligated to share its law enforcement resources with the other governmental units of the entity.

On June 6, 2002, the City entered into an agreement under Chapter 28E with the West Liberty Volunteer Fire Department and the West Liberty Rural Communities Ambulance District for the purpose of jointly owned ambulance equipment and the allocation of operating and maintenance expense.

On June 2, 2002, the City entered into an agreement under Chapter 28E with the West Liberty Volunteer Fire Department and the West Liberty Rural Fire Department for the purpose of jointly owned firefighting equipment and the allocation of operating and maintenance expense.

On October 18, 2004, the City entered into an agreement under Chapter 28E with the West Liberty School District for the purpose of joint use of recreational facilities of the City and the school for adult and youth recreation programs.

On June 10, 2005, the City entered into an agreement under Chapter 28E with Muscatine County for the purpose of the road construction improvements to be made to Garfield Avenue, aka Muscatine County Road X40, within the City of West Liberty at an estimated cost of \$96,644.77

NOTE 11- RPGI PARTICIPANT (AGENCY) AGREEMENT & RPGI PRO RATA GUARANTY

The City signed a RPGI Participant Agreement dated April 15th, 2004 with the Resale Power Group of Iowa (RPGI), an Iowa Chapter 28E Organization of which the City is a member. The purpose of the agreement is to permit RPGI to act as an agent for the City for entering into agreements for the purchase, generation, distribution, sale and interchange of electric energy. The agreement commences on January 1, 2005 and shall continue for successive five year terms until terminated by either party.

Related to the preceding agreement, the City also signed a RPGI Pro Rata Guaranty dated April 16th, 2004 with the Resale Power Group of Iowa (RPGI). The purpose of the guaranty is to obligate the City to be contingently liable to RPGI in its role as a contracting agent and guarantor for the purchase of electric energy from Ameren Energy Marketing Company (AEM) of Illinois in behalf of the members of RPGI. The City's share of the RPGI's \$20M guaranty to AEM is 7.61%, or \$1,528,088 based upon the agreement among the members of RPGI. The guaranty agreement terminates on February 15th, 2009, unless the agreement with AEM terminates prior to that date.

NOTE 12 - TAX INCREMENT FINANCING

Resolution 6-03 authorized a loan to the Tax Increment Financing Fund. The City of West Liberty has established the West Liberty Urban Renewal Area whereas the City will perform certain improvements consisting of repair and renovation of the east side interceptor sewer. In order to make the improvements eligible to be paid from the incremental property tax revenues, it is necessary to create an internal debt. The City Clerk was directed that \$90,000 be advanced to the Tax Increment Fund from the Electric Fund in order to pay the cost of the improvements. The advance shall be treated as a loan to the Tax Increment Fund and shall be repaid to the Electric Fund with interest of 3.75% per annum. Payment shall be made on the loan on December 31st and June 30th of each year to the extent there are incremental tax revenues available for such purpose. Funds shall be credited first to accrued interest and then to outstanding principal. Similarly, Resolution 4-02 established a Tax Increment Fund and authorized a loan to that fund. The City performed certain improvements consisting of the acquisition and demolition of 109 Rainbow Drive. The City Clerk was directed that \$90,000 be advanced to the TIF from the General Fund with interest of 3.75%. Payments shall be made June 1st, of each year as TIF funds are available. Payments will be allocated first to accrued interest and then to outstanding principal.

NOTE 13 - WATER POLLUTION CONTROL AGREEMENT WITH INDUSTRIAL USER AND AMENDMENT OF AGREEMENT

An Agreement was made, dated June 14, 1993, between the Oscar Mayer Foods Corporation d/b/a Louis Rich Foods (the Company) and the City of West Liberty (the City) "to provide for contribution by the Company to the City for the cost of wastewater treatment plant improvements and also contributions by the Company to the City for the cost of operation of the improved wastewater treatment plant." The agreement supersedes all prior agreements. In the agreement, the City assumed responsibility for arranging financing for construction of the improvements, procurement of construction bids and letting of the contracts for construction. Covenants of the City include maintenance of adequate insurance on the facilities, operation of facilities in a prudent manner, indemnification of the company for any claims arising from the construction and normal operation of the facilities, and replacement of the facilities if damaged or destroyed by casualty.

The Company is obligated to pay a "Capital" charge and a "User" charge to the City. The "Capital" charge is the Company's minimum share (approximately 70%) of project costs of constructing the facilities and interest expense on debt obligations. The "User" charge is the Company's share of operating costs based upon rates of flow and treatment characteristics of the Company's discharge. The "Capital" charge payment by the Company will cease when the aggregate amount paid equal's the Company's share of project costs. The user charge will continue under the agreement for as long as the Company discharges wastewater to the City's facilities. On April 16, 1996, the Company informed the City of its intent to sell its West Liberty plant. The Iowa Turkey Growers Cooperative (ITGC) purchased the production facilities in West Liberty from the Louis Rich Company on January 1, 1997. Oscar Mayer Foods Corporation remains liable for performance under the contract to the City.

An amendment to the agreement was made on February 15, 1994. The amendment, effective the date signed, requires the Company to pay an "Enhanced Capital" charge, whereby an additional amount equivalent to 30% of the Capital charge as determined in the original agreement is deposited into the "Wastewater Treatment Plant Improvement Fund." This fund is to be used for paying principal and interest on outstanding debt if and when there are insufficient funds in other debt reserve accounts. The "Enhanced Capital" charge will cease at the same time that the Capital charge under the original agreement ceases.

A second amendment was made to the agreement on March 8, 1997, for the purpose of specifying the project cost of \$3,115,000 which is used in calculating the "Capital" charge and the "Enhanced Capital" charge.

Kraft foods who acquired Oscar Meyer foods ceased payments in June 2005. The cessation of payments is in apparent conflict with the above agreement. The City is pursuing a legal remedy to have the payments restored to comply with the original agreement.

NOTE 14 - LIBRARY CONSTRUCTION NOTE PAYABLE

During the fiscal year ended June 30, 2001, the City received proceeds of \$400,000 from a General Obligation Library Note Payable for the purpose of library construction to repay an interfund loan. The note dated May 25, 2001 carried an interest rate of 6.75% and was paid in full May 15, 2005.

NOTE 15 - CEBA LOAN AGREEMENT

The City received a Community Economic Betterment Account (CEBA) award dated August 19, 1999 for a loan of \$350,000 and a forgivable loan of \$150,000 on behalf of a local business Engineered Rubber Products, Inc. The local business is required to repay the loan over 60 months at 0% interest with monthly payments of \$5,833.33 commencing June 1, 2000. The forgivable loan does not have to be repaid if the business complies with covenants contained within the agreement. The City provides electrical infrastructure improvements and agency services for the Iowa Department of Economic Development for administration of the award.

NOTE 16 - STREET CONSTRUCTION G.O. CAPITAL LOAN NOTE

During the fiscal year ended June 30, 2000, the City received proceeds of \$1,000,000 from a bond anticipatory note for purposes of street construction. The debt dated May 3, 2000 carried an interest rate of 5.1% and was due June 1, 2001. The liability for the note was shown in the special revenue street fund. The refinancing of the short term note on a long term basis was anticipated to be completed during the fiscal year ended June 30, 2001. The street construction loan was not included in the general long term debt account group.

During the fiscal year ended June 30, 2001, the City received proceeds of \$1,490,000 from a General Obligation Capital Loan Note for the purposes of refinancing the fore mentioned note and additional street construction. The debt, dated March 22, 2001, carries an average interest rate of 5.0527% and is due June 1, 2016.

NOTE 17 - CAPITAL LOAN NOTES

Water Pollution Control

The City issued general obligation capital loan notes dated January 1, 1994 in the aggregate amount of \$350,000 for the purpose of financing construction of Water Pollution Control plant and sewer improvements. The notes mature serially between 1997 and 2009 and carry an average interest rate of 4.867%. As of July 1, 2002 the remaining notes payable totaled \$190,000.

The above remaining capital loan notes of \$190,000 were retired by refunding the debt with General Obligation Capital Loan Notes dated September 1, 2002 for a total of \$195,000. These refunding Capital Loan Notes are included as a part of the \$595,000 of Capital Loan Notes issued that date of which \$400,000 was issued for the purpose of the swimming pool renovation project. Therefore, 32.7731% of principal and interest debt service payments on the \$595,000 of Capital Loan Notes are allocated to the Water Pollution Control proprietary enterprise fund. The notes mature serially between 2004 and 2013 and carry an average interest rate of 4.14%.

Pool Renovation Project

Dated September 1, 2002, the City issued \$400,000 of General Obligation Capital Loan Notes to fund renovation of the Municipal Swimming Pool. These Capital Loan Notes are included as a part of the \$595,000 of Capital Loan Notes issued that date of which \$195,000 was issued for the purpose of refunding Water Pollution Control Capital Loan Notes dated January 1, 1994. Therefore, 67.227% of principal and interest debt service payments on the \$595,000 of Capital Loan Notes are allocated to the Debt Service Fund. The notes mature serially between 2004 and 2013 and carry an average interest rate of 4.14%.

NOTE 18 - LOAN AGREEMENTS WITH IOWA TURKEY GROWERS COOPERATIVE

The Iowa Turkey Growers Cooperative, (ITGC) doing business as West Liberty Foods, entered into a contract with the Louis Rich Company for purchase of its West Liberty production facilities in December of 1996. This contract was contingent upon obtaining financing including forgivable loans from the City of West Liberty. The city entered into a contract with the Iowa Department of Economic Development (IDED) whereby the city received a \$500,000 forgivable loan under the Iowa Nonentitlement CDBG Economic Development Set-Aside Program funded by the federal government. The city entered into a contract with ITGC to loan the \$500,000 of CDBG monies and an additional \$75,000 of city monies to ITGC, in exchange for certain affirmative covenants by ITGC. Upon the first anniversary of the expiration of the contract on September 30, 1997, the loans were to be forgiven if ITGC has complied with the contract terms including proper use of loan funds, maintaining a minimum level of employment, and providing various financial reports. The federal funds are subject to repayment if there is noncompliance.

In August of 1997, the City was notified by ITGC that they were in noncompliance with the terms of the contract with the City due to their non-submission of financial reports to the City which are required under the contract to be submitted in a timely manner. The City issued a letter of waiver to ITGC with respect to the lack of timely financial report submission that would otherwise constitute loan default. The Iowa Department of Economic Development has been notified by the City about the waiver. The loans are secured by liens on ITGC property. The forgivable loan was forgiven as of September 30, 1997.

As part of a financial restructuring in April of 1998, West Liberty Foods requested and received a subordination of debt agreement from the City. Also, the City loaned an additional \$50,000 to West Liberty Foods from the City's Electric Utilities Proprietary Enterprise Fund, for working capital. The note is at 6% and the loan is amortized with monthly payments aggregating \$966.64 per month for principal and interest with 60 monthly payments commencing February 1, 2000. This obligation was paid in full during the fiscal year ending June 30, 2005.

NOTE 19 - NOTE INDEBTEDNESS - REVENUE NOTE REQUIREMENTS

Water Pollution Control Revenue Notes

The Council of the City of West Liberty passed an ordinance to authorize the issuance of \$3,115,000 of Sewer Revenue Capital Loan Notes, dated March 1, 1995, to finance the construction of improvements to the Water Pollution Control facility and related improvements.

The ordinance provides that these notes will be retired from the revenue of the municipal Sewer Utility. The ordinance creates the following three funds to provide for the retirement of the notes:

1. Note and Interest Sinking Fund - Monthly deposits are to be made to this fund from the operations account amounting to one-sixth of the interest coming due at the next semiannual interest payment date, plus one-twelfth of the notes maturing on the next maturity date. Notes and interest are paid by this fund.

2. Debt Service Reserve Fund - Monthly deposits of 25% of the amount required for the above Note and Interest Sinking Fund from the operations account are to be made into this fund until the fund balance has reached the Reserve Fund Requirement. The Reserve Fund Requirement equals the lesser of the maximum interest and principal coming due or ten percent of the principal amount outstanding.
3. Sewer Improvement Fund - Monthly payments of \$5,000 are to be made to this fund. This fund is to be used, if necessary, to finance accounts #1 and #2 above and for repairs or construction of additional works and facilities. Payments are to continue until \$300,000 has been accumulated in the account. If the account balance drops below this minimum balance, the monthly \$5,000 payments must recommence.

The bonds mature serially starting March 1, 1997, through March 1, 2010. Interest is payable semiannually on March 1 and September 1. Deposits to above funds #1, #2 and #3 were made correctly during the year in accordance with the above requirements.

The ordinance required that the accrued interest of \$13,788.35 received from issuance of the notes be deposited to the Note and Interest Sinking Fund. Also, it required \$300,000 from funds on hand to be deposited in the Debt Service Reserve Fund. Both of these requirements have been completed.

The ordinance also requires that other covenants be complied with as follows:

- a. The City will maintain the Water Pollution Control Facility in good condition; operate it in an efficient manner and at reasonable cost.
- b. The City will produce sufficient net revenue adequate to pay principal and interest on notes and fund reserve and improvement funds, but not less than 125% of the principal and interest requirements each year.
- c. The City will maintain adequate insurance on the facilities.
- d. The City will have an annual audit by an independent auditor and provide a copy to the original purchaser and other note holders. The audit report must include the following:
 - i. An evaluation of covenant compliances .
 - ii. Statement of revenues and expenses.
 - iii. Balance sheet.
 - iv. Rates in effect at the end of the fiscal year, the number of customers of the system and an analysis of the rates of debt service to net revenues.
 - v. Schedule of insurance.
 - iv. Evaluation of internal controls and sufficiency of fidelity bonding.
 - vii. Listing of public officials.
 - viii. Statement addressing any events or circumstances which might affect the financial status of the system.
- e. The City will operate the system in compliance with state laws.
- f. The City will not sell, lease or in any other manner dispose of any of the system, generally.
- g. Sufficient fidelity bond coverage will be maintained by the City.
- h. The City will require proper connecting charges and security from customers for payment of service charges.
- i. The City will adopt a system budget each year.

The City complied with the preceding covenants for the fiscal year ended June 30, 2005, except for the following paragraph.

The net revenue of the Sewer Proprietary Fund did not meet the minimum net revenue required by the bond covenants of the Sewer Revenue Capital Loan Notes dated March 1, 1995 by \$118,557.

On April 16, 1996, the City received official notification from the Louis Rich Company, the major user of the system that the West Liberty plant was for sale. The Iowa Turkey Growers Cooperative (ITGC) purchased the production facilities in West Liberty from the Louis Rich Company on January 1, 1997. A contract was signed with the City by ITGC whereby the city will provide wastewater treatment services to ITGC on a contractual basis similar to the contract previously with the Louis Rich Company.

Electric Utility Revenue Notes

The Council of the City of West Liberty passed an ordinance to authorize the issuance of \$5,000,000 of Electric Revenue Capital Loan Notes, dated September 1, 2002, to finance the construction of improvements to the Municipal Electric Utility of the City including additional generating capacity.

The ordinance provides that these notes will be retired from the revenue of the Municipal Electric Utility. The ordinance creates the following four funds to provide for the retirement of the notes:

1. Operation & Maintenance Fund - Monthly deposits are to be made to this fund from operating revenues sufficient to meet the current operating expenses of the month plus an amount equal to one-twelfth of the expenses payable annually.
2. Sinking Fund - Monthly deposits are to be made to this fund from the operations account amounting to one-sixth of the interest coming due at the next semiannual interest payment date, plus one-twelfth of the notes maturing on the next maturity date. Notes and interest are paid by this fund.
3. Reserve Fund - Monthly deposits of 25% of the amount required for the above Sinking Fund from the operations account are to be made into this fund until the fund balance has reached the Reserve Fund Requirement. The Reserve Fund Requirement equals the lesser of the (1) maximum interest and principal coming due, (2) ten percent of the principal amount outstanding, or (3) 125% of the average annual principal and interest coming due. An initial deposit of \$471,000 to the Reserve Fund was required.
4. Improvement Fund - Monthly payments of \$4,000 are to be made to this fund. This fund is to be used, if necessary, to finance accounts #2 and #3 above and for repairs or construction of additional works and facilities. Payments are to continue until \$500,000 has been accumulated in the account. If the account balance drops below this minimum balance, the monthly \$4,000 payments must recommence. An initial deposit of \$500,000 to the Improvement Fund was required.

The bonds mature serially starting December 1, 2004, through December 1, 2017. Notes maturing after December 1, 2010 may be called for redemption on said date or anytime thereafter at par by giving thirty (30) days notice of redemption. Interest is payable semiannually on June 1 and December 1. Monthly deposits to above funds #1, #2, #3 and #4 were made correctly during the year in accordance with the above requirements.

The ordinance required that the accrued interest of \$19,918.22 received from issuance of the notes be deposited to the Sinking Fund. Also, it required \$471,000 from funds on hand to be

deposited in the Reserve Fund and \$500,000 from funds on hand to be deposited to the Improvement Fund. All three of these requirements have been completed. The ordinance also requires that other covenants be complied with as follows:

- a. The City will maintain the Electric Utility System in good condition; operate it in an efficient manner and at reasonable cost.
- b. The City will produce sufficient net revenue adequate to pay principal and interest on notes and fund Reserve and Improvement Funds.
- c. The City will maintain adequate insurance on the facilities. Proceeds of any insurance will be used to repair or replace destroyed parts of the system or shall be placed in the Improvement Fund.
- d. The City will have an annual audit by an independent auditor and provide a copy to the original purchaser and other note holders, upon request.
- e. The City will operate the system in compliance with state laws.
- f. The City will not sell, lease or in any other manner dispose of any of the system, generally.
- g. Sufficient fidelity bond coverage will be maintained by the City.
- h. The City will require proper connecting charges or other security for payment of service charges.
- i. The City will approve and conduct operations pursuant to a system budget of revenues and expenses for each fiscal year.

The City complied with the preceding covenants for the fiscal year ended June 30, 2005.

NOTE 20 - CONTRACT COMMITMENTS

As of June 30, 2005, the City was obligated under the following contract commitments:

Operations Management International, Inc. for operation of the Wastewater Treatment Plant, Sludge Disposal and Industrial Monitoring program under a five year amended contract dated June 10, 2005 that began July 1, 2005, at a monthly fee of \$43,185, adjusted annually.

Solar Turbines Incorporated for maintenance of the two turbine generator sets under a five year contract dated June 1, 2004 at a monthly fee of \$4,500, adjusted annually for inflation.

Cedar Valley Corp. for street construction within the City for .55 miles of West Prairie Street under a contract dated January 19, 2005 at a cost of \$906,633.06.

NOTE 21- Subsequent Events

On August 17, 2005, the city council authorized the City Clerk to sign the agreement for Federal Surface Transportation Program Funds in the amount of \$525,000 for the Prairie Street Project. As of June 30, 2005, this project was approximately 45% complete with a total of \$392,605 expended.

NOTE 22- STP Agreement

The City has entered into an agreement date August 19, 2004 for federal aid through the Iowa Department of Transportation to assist with the financing of the reconstruction of West Prairie

Street. The federal aid is under the federal government's "Surface Transportation Program" (STP) of the Transportation Equity Act of 1998 and is subject to single audit requirements of a "Highway Planning and Construction" project under section 20.205 of the catalog of Federal Domestic Assistance.

Required Supplementary Information

City of West Liberty

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) -
Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>	<u>Budget</u>	Actual to Budget <u>Variance</u>
Receipts:					
Property tax	\$ 678,048		678,048	663,664	14,384
Tax increment financing	177,486		177,486	49,088	128,398
Other city tax	278,919		278,919	272,272	6,647
Licenses and permits	24,309		24,309	13,000	11,309
Use of money and property	36,501	103,427	139,928	15,600	124,328
Intergovernmental	291,191		291,191	265,000	26,191
Charges for service	118,280	5,002,487	5,120,767	6,490,956	(1,370,189)
Miscellaneous	<u>216,935</u>	<u>6,575</u>	<u>223,510</u>	<u>48,900</u>	<u>174,610</u>
Total receipts	<u>1,821,669</u>	<u>5,112,489</u>	<u>6,934,158</u>	<u>7,818,480</u>	<u>(884,322)</u>
Disbursements:					
Public safety	646,908		646,908	670,436	(23,528)
Public works	328,661		328,661	304,190	24,471
Culture and recreation	549,168		549,168	518,734	30,434
Community and economic development	87		87	2,000	(1,913)
General government	182,985		182,985	165,500	17,485
Debt service	203,904		203,904	198,150	5,754
Capital projects	399,354		399,354	260,000	139,354
Business type activities	<u>-</u>	<u>4,999,412</u>	<u>4,999,412</u>	<u>5,800,903</u>	<u>(801,491)</u>
Total disbursements	<u>2,311,067</u>	<u>4,999,412</u>	<u>7,310,479</u>	<u>7,919,913</u>	<u>(609,434)</u>
Excess (deficiency) of receipts over (under) disbursements	(489,398)	113,077	(376,321)	(101,433)	(274,888)
Other financing sources, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>900</u>	<u>(900)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(489,398)	113,077	(376,321)	(100,533)	(275,788)
Balances beginning of year	<u>2,222,207</u>	<u>16,506,058</u>	<u>18,728,265</u>	<u>-</u>	<u>18,728,265</u>
Balances end of year	<u>\$ 1,732,809</u>	<u>16,619,135</u>	<u>18,351,944</u>	<u>(100,533)</u>	<u>18,452,477</u>

See accompanying independent auditors' report.

City of West Liberty
Notes to Required Supplementary Information – Budgetary Reporting
Year ended June 30, 2005

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget amendments increased budgeted disbursements by \$663,539. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements in the public works, culture and recreation, general government, debt service and capital projects function exceeded the amount budgeted.

City of West Liberty

Other Supplementary Information

City of West Liberty

Combining Balance Sheet
Nonmajor Funds

June 30, 2005

	<u>Crees Cemetery</u>	<u>Library Improvement</u>	<u>Road Use</u>	<u>FEMA</u>	<u>TIF Urban Renewal</u>	<u>Fire Trust and Agency</u>	<u>Library Trust</u>	<u>Insurance Reserve</u>	<u>Ambulance Reserve</u>
Assets									
Cash and pooled investments	37,041	5,223	157,421	8,951	613	30,400	95,179	133,398	104,025
Receivables:									
Accrued interest	103					29		148	
Due from other governments					551				
Prepays			7,745						
Total assets	<u>37,144</u>	<u>5,223</u>	<u>165,166</u>	<u>8,951</u>	<u>1,164</u>	<u>30,429</u>	<u>95,179</u>	<u>133,546</u>	<u>104,025</u>
Liabilities and Fund Equity									
Liabilities:									
Accounts payable	452		21,861					83	
Accrued payroll			3,272						
Due to other funds					115,394				
Fund equity:									
Fund balances:									
Unreserved, undesignated	<u>36,692</u>	<u>5,223</u>	<u>140,033</u>	<u>8,951</u>	<u>(114,230)</u>	<u>30,429</u>	<u>95,179</u>	<u>133,463</u>	<u>104,025</u>
Total liabilities and fund equity	<u>37,144</u>	<u>5,223</u>	<u>165,166</u>	<u>8,951</u>	<u>1,164</u>	<u>30,429</u>	<u>95,179</u>	<u>133,546</u>	<u>104,025</u>

See accompanying independent auditor's report.

City of West Liberty

Combining Balance Sheet
Nonmajor Funds

June 30, 2005

<u>Fire Reserve</u>	<u>Cash Clearing</u>	<u>Payroll Clearing</u>	<u>Subtotal Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
159,396	2,533	(103)	734,077	20,635	754,712
198			478		478
			551		551
			7,745		7,745
			-		
<u>159,594</u>	<u>2,533</u>	<u>(103)</u>	<u>742,851</u>	<u>20,635</u>	<u>763,486</u>
		(103)	22,293		22,293
			3,272		3,272
			115,394		115,394
<u>159,594</u>	<u>2,533</u>		<u>601,892</u>	<u>20,635</u>	<u>622,527</u>
			-		
<u>159,594</u>	<u>2,533</u>	<u>(103)</u>	<u>742,851</u>	<u>20,635</u>	<u>763,486</u>

See accompanying independent auditors' report.

City of West Liberty
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Funds
Year ended June 30, 2005

	Special Revenue								
	Special Law <u>Enforcement</u>	Local Option <u>Tax</u>	Crees <u>Cemetery</u>	Library <u>Improvement</u>	Road <u>Use</u>	FEMA	TIF Urban <u>Renewal</u>	Fire Trust and <u>Agency</u>	K-9 Trust and <u>Agency</u>
Revenues:									
Property tax							49,696		
Tax increment financing									
Other city tax									
Use of money and property		1,073	719	73			259	504	6
Intergovernmental					277,042				
Charge for service									
Miscellaneous								90	
Total revenues	-	1,073	719	73	277,042	-	49,955	594	6
Expenditures:									
Operating:									
Public Safety									
Public Works					272,759				
Culture and Recreation									
General Government									
Debt Service							5,754		
Capital Projects									
Total expenditures	-	-	-	-	272,759	-	5,754	-	-
Excess (deficiency) of revenues over (under) expenditures	-	1,073	719	73	4,283	-	44,201	594	6
Other financing sources (uses):									
Operating transfers in (out)	(114)	(275,375)							(1,733)
Total other financing sources (uses)	(114)	(275,375)	-	-	-	-	-	-	(1,733)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(114)	(274,302)	719	73	4,283	-	44,201	594	(1,727)
Fund balances beginning of year	114	274,302	35,973	5,150	135,750	8,951	(158,431)	29,835	1,727
Fund balances end of year	\$ -	-	36,692	5,223	140,033	8,951	(114,230)	30,429	-

See accompanying independent auditor's report.

City of West Liberty
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Funds
Year ended June 30, 2005

Special Revenue									
Special Gifts	Library Trust	Insurance Reserve	Ambulance Reserve	Fire Reserve	Cash Clearing	Payroll Clearing	Subtotal Special Revenue	Capital Projects	Total
							49,696		-
	88,480						88,480		49,696
	779	1,973	1,261	2,488			9,135	286	88,480
							277,042		9,421
			38,908				38,908		277,042
	<u>100,000</u>	<u>44,664</u>		<u>12,500</u>	<u>314</u>		<u>157,568</u>		38,908
<u>-</u>	<u>189,259</u>	<u>46,637</u>	<u>40,169</u>	<u>14,988</u>	<u>314</u>	<u>-</u>	<u>620,829</u>	<u>286</u>	<u>157,568</u>
			6,950				6,950		6,950
	99,790						272,759		272,759
		35,763					99,790		99,790
							35,763		35,763
							5,754		5,754
							-	-	-
<u>-</u>	<u>99,790</u>	<u>35,763</u>	<u>6,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>421,016</u>	<u>-</u>	<u>421,016</u>
-	89,469	10,874	33,219	14,988	314		199,813	286	200,099
(125)				12,500			(264,847)		(264,847)
(125)	-	-	-	12,500	-	-	(264,847)	-	(264,847)
(125)	89,469	10,874	33,219	27,488	314	-	(65,034)	286	(64,748)
<u>125</u>	<u>5,710</u>	<u>122,589</u>	<u>70,806</u>	<u>132,106</u>	<u>2,219</u>	<u>-</u>	<u>666,926</u>	<u>20,349</u>	<u>687,275</u>
<u>-</u>	<u>95,179</u>	<u>133,463</u>	<u>104,025</u>	<u>159,594</u>	<u>2,533</u>	<u>-</u>	<u>601,892</u>	<u>20,635</u>	<u>622,527</u>

See accompanying independent auditors' report.

City of West Liberty

Schedule of Revenues by Source and Expenditures by Function -
All Governmental Funds

For the Last Four Years

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues:				
Property tax	\$ 678,048	723,315	785,085	732,308
Tax increment financing revenue	177,486	150,638	144,753	76,154
Other city tax	278,919	314,388	274,548	293,448
Licenses and permits	24,309	20,583	33,739	30,856
Use of money and property	36,501	30,080	41,452	75,682
Intergovernmental	291,191	375,091	357,437	349,003
Charges for service	118,280	100,005	77,088	72,070
Miscellaneous	<u>216,935</u>	<u>105,765</u>	<u>76,098</u>	<u>111,664</u>
Total	<u>\$ 1,821,669</u>	<u>1,819,865</u>	<u>1,790,200</u>	<u>1,741,185</u>
Expenditures:				
Operating:				
Public safety	\$ 646,908	532,728	478,329	
Public works	328,661	327,190	358,056	
Culture and recreation	549,168	405,812	506,682	
Community and economic development	87	7	2,617	
General government	182,985	190,737	108,958	
Debt service	203,904	201,010	168,930	
Capital projects	<u>399,354</u>	<u>820,336</u>	<u>820,445</u>	
Total	<u>\$ 2,311,067</u>	<u>2,477,820</u>	<u>2,444,017</u>	<u>1,870,267</u>

See accompanying independent auditors' report.

City of West Liberty

Insurance in Force
June 30, 2005

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>	<u>Remarks</u>	<u>Policy Number</u>	<u>Term</u>	<u>Inception Date</u>
Employers Mutual Co.	Property	\$ 10,726,896	4/1/06	90% cash value	8X9-30-44 Package	1 yr.	4/1/05
	Broad form company general	2,000,000					
	Business auto	1,000,000					
	Crime coverage						
	Loss inside premises	10,000					
	Loss outside premises	10,000					
	Boiler and machinery						
	Limit per accident	15,000,000					
	Inland marine	546,836		As caused			
	EDP			Included in property			
	Citizen band radios			Included in property			
	Contractors equipment form			Included in property			
	Miscellaneous property form			Included in property			
	Umbrella liability	5,000,000					
	Retained limit	10,000					
	Linebacker	1,000,000					
The Hartford Accident and Indemnity Company	Worker's compensation	500,000			83VP730207	1 yr.	3/23/05
	Employee Dishonesty	25,000					
	Forgery	10,000					
	Volunteer firefighters		3/23/06	Volunteer firefighters			
	Accidental death & dismember benefit	5,000		blanket			
	Accident total disability benefit	50		Accident policy weekly benefit Up to age 65			

City of West Liberty

Bond and Note Maturities
June 30, 2005

General Obligation and Revenue Bonds & Notes

Year Ending <u>June 30.</u>	<u>Pool Project</u> <u>Issued September 1, 2002</u>		<u>Street Improvements Bond</u> <u>Issued March 1, 2001</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2006	3.50%	43,680	4.70%	85,000
2007	3.75%	43,680	4.80%	90,000
2008	4.00%	47,040	4.85%	90,000
2009	4.15%	47,040	4.90%	95,000
2010	4.30%	26,880	5.00%	100,000
2011	4.45%	30,240	5.05%	105,000
2012	4.60%	30,240	5.10%	115,000
2013	4.70%	33,600	5.15%	120,000
2014			5.20%	125,000
2015			5.25%	130,000
2016		-	5.30%	140,000
Total		<u>\$ 302,400</u>		<u>1,195,000</u>

City of West Liberty

Bond and Note Maturities
June 30, 2005

General Obligation and Revenue Bonds & Notes

Year Ending <u>June 30,</u>	<u>Electric Revenue</u> <u>Issued September 1, 2002</u>		<u>Sewer Revenue Notes</u> <u>- Series 1995</u> <u>Issued March 1, 1995</u>		<u>Sewer GO Note</u> <u>Issued September 1, 2002</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2006	3.35%	265,000	7.40%	245,000	3.50%	21,320
2007	3.75%	270,000	7.45%	260,000	3.75%	21,320
2008	4.00%	285,000	7.45%	280,000	4.00%	22,960
2009	4.25%	295,000	7.50%	305,000	4.15%	22,960
2010	4.40%	310,000	7.50%	325,000	4.30%	13,120
2011	4.55%	320,000			4.45%	14,760
2012	4.70%	335,000			4.60%	14,760
2013	4.85%	355,000			4.70%	16,400
2014	4.95%	370,000				
2015	5.05%	390,000				
2016	5.15%	410,000				
2017	5.25%	435,000				
2018	5.30%	<u>455,000</u>		<u>-</u>		<u>-</u>
TOTAL		<u>\$ 4,495,000</u>		<u>1,415,000</u>		<u>147,600</u>

City of West Liberty

Computation of Legal Debt Margin
June 30, 2005

Actual Valuation at January 1, 2003	\$ 102,701,680
Times %	x 5%
Legal Debt Limitation	<u>5,135,084</u>
Debt Applicable to Limitation	
Outstanding General Obligation Bonds and Notes at June 30, 2005	<u>1,497,400</u>
Legal Debt Margin	<u>\$ 3,637,684</u>

City of West Liberty

Electric Utility
 Restricted Accounts Required By Bond Ordinance
 June 30, 2005

	<u>Account</u>			
	Current	Future	Contingency	
	Debt	Debt	(Renewal and	
	<u>Service</u>	<u>Service</u>	<u>Replacement)</u>	<u>Total</u>
Cash and Investments - Beginning of Year	\$ 166,903	471,000	580,108	1,218,011
Cash Receipts - Transfers From Operating Cash	<u>474,200</u>	<u>-</u>	<u>-</u>	<u>474,200</u>
Total Cash and Investments Available	<u>641,103</u>	<u>471,000</u>	<u>580,108</u>	<u>1,692,211</u>
Cash Disbursements				
Principal Payments	255,000			255,000
Interest Payments	<u>214,005</u>	<u>-</u>	<u>-</u>	<u>214,005</u>
Total Cash Disbursement	<u>469,005</u>	<u>-</u>	<u>-</u>	<u>469,005</u>
Cash and Investments - End of Year	<u>\$ 172,098</u>	<u>471,000</u>	<u>580,108</u>	<u>1,223,206</u>

City of West Liberty

Sewer Utility – Revenue Bond & Note
 Restricted Accounts Required By Bond Ordinance
 June 30, 2005

	<u>Account</u>			
	<u>Current</u>	<u>Future</u>	<u>Contingency</u>	
	<u>Debt</u>	<u>Debt</u>	<u>(Renewal and</u>	
	<u>Service</u>	<u>Service</u>	<u>Replacement)</u>	<u>Total</u>
Cash and Investments -				
Beginning of Year	\$ 120,907	300,000	833,916	1,254,823
Cash Receipts - Transfers In (Out)				
From Operating Cash	<u>350,001</u>	<u>-</u>	<u>-</u>	<u>350,001</u>
Total Cash and				
Investments Available	<u>470,908</u>	<u>300,000</u>	<u>833,916</u>	<u>1,604,824</u>
Cash Disbursements				
Transfers			385,578	385,578
Principal Payments	225,000			225,000
Interest Payments	<u>122,148</u>	<u>-</u>	<u>-</u>	<u>122,148</u>
Total Cash Disbursements	<u>347,148</u>	<u>-</u>	<u>385,578</u>	<u>346,973</u>
Cash and Investments -				
End of Year	<u>\$ 123,760</u>	<u>300,000</u>	<u>448,338</u>	<u>872,098</u>

City of West Liberty

Sewer Rates and Customers

Number of Sewer Customers as of June 30, 2005: 1398

Sewer Rates as of June 30, 2005: \$2.55/1,000 gallons/month plus \$18.50 user fee/month
minimum for 0-1,000 gallons \$21.05

Rural usage: \$3.70/1,000 gallons/month plus \$26.83 user fee/month

City of West Liberty

Sewer Net Revenues and Comparison to Debt Service

Sewer Proprietary Enterprise Fund:

Net Income for Year Ended June 30, 2005	\$ 7,509
Add: Depreciation Expense	184,587
Bond Interest Paid	<u>123,282</u>
Net Revenue for Year Ended June 30, 2005	<u>315,378</u>
 Debt Service Requirements for the Year Ended June 30, 2005	 347,148
Bonding Requirement Factor	x <u>125%</u>
Minimum Net Revenue	<u>433,935</u>
 Bonding Requirements	 <u>\$ (118,557)</u>

City of West Liberty

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of West Liberty, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 24, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of West Liberty's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no prior year statutory comments.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of West Liberty's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of West Liberty's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. There were no prior year reportable conditions . for item II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of West Liberty and other parties to whom the City of West Liberty may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of West Liberty during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

TAYLOR, REES, BECKEY & CO. P.C.
Certified Public Accountants
October 24, 2005

City of West Liberty
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements .
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Federal program expenditures for the year did not exceed \$500,000. A single audit of federal awards was not performed .

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE: Not Applicable

REPORTABLE CONDITIONS: Not Applicable

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-05 **Official Depositories** – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 **Certified Budget** – Disbursements during the year ended June 30, 2005 exceeded the amount budgeted in the general government, public works, culture and recreation, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-C-05 **Questionable Disbursements** – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 **Travel Expense** – No disbursements of City money for travel expenses of spouses of City officials or employees were noted that represent a conflict of interest in accordance with Chapter 362.5(10) of the Code of Iowa.

IV-E-05 **Business Transactions** – Business transactions between the City and City officials or employees are noted as follows:

Name, Title, and Business Connection	Transaction Description	Amount
William Cline – Council Member HD Cline Company	Parts, Repairs, Minor Mower purchase	\$ 7122

From our review of the purchases in accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with HD Cline Company do not appear to represent conflicts of interest. Mr. Cline abstained from voting on the mower purchase.

IV-F-05 **Bond Coverage** – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-G-05 **Council Minutes** – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-05 **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-05 **Revenue Notes** – The net revenue of the Sewer Proprietary Fund did not meet the minimum net revenue required by the bond covenants of the Sewer Revenue Capital Loan Notes, dated March 1, 1995 by \$118, 557.

Recommendation – Increase sewer revenue.

Response – Sewer payments will be required from Kraft Foods and West Liberty Foods or increase sewer rates.

Conclusion – Response accepted.

IV-J-05

Financial Condition – The TIF Urban Renewal, a special revenue fund, had a deficit balance at June 30, 2005 of \$114,230. The Street Improvement Fund, a capital projects fund had a deficit balance at June 30, 2005 of \$63,911. Subsequent to June 30, 2005 the city drew funds from a DOT grant that replenished the deficit. DOT funds can be drawn against when expenditures reach \$250,000.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response – The deficit was due to acquisition costs incurred prior to securing project financing. The deficit will be eliminated upon receiving proceeds from permanent financing.

Conclusion – Response accepted.